



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Casa Grande Union High School District No. 82

Year Ended June 30, 2003



Debra K. Davenport
Auditor General

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Accounting Services Division Staff

Michael Stelpstra, Manager and Contact Person
mstelpstra@auditorgen.state.az.us

Valerie Deaton
Kate Reiner

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

December 9, 2004

Governing Board
Casa Grande Union High School District No. 82
1362 North Casa Grande Avenue
Casa Grande, AZ 85222

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2003, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Michael Stelpstra, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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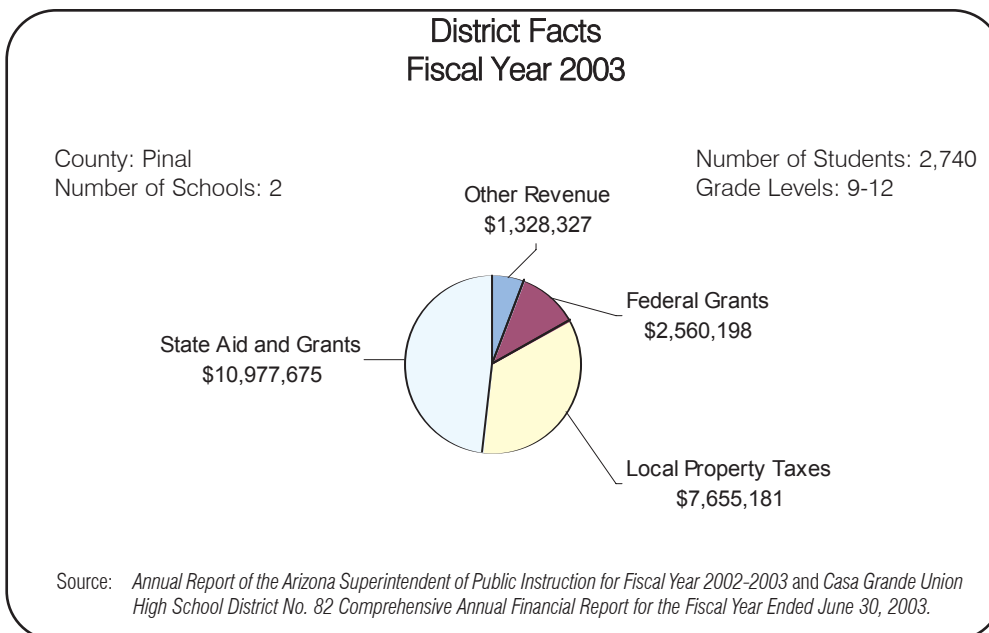
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INTRODUCTION

Casa Grande Union High School District No. 82 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$22 million received in fiscal year 2003 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2003, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District must follow competitive purchasing requirements

The District may not have received the best value for the public monies it spent, as competitive purchasing requirements were frequently not followed.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bidding threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the School District Procurement Rules or the USFR guidelines for purchases. For example, the District classified three purchases as emergency procurements, but the reasons for the purchases did not qualify as emergencies. Furthermore, the District did not follow the procurement rules for emergency procurements. For other purchases, the District used competitive sealed proposals without determining in writing that using proposals would be more beneficial to the District than competitive sealed bids. In addition, the District did not retain documentation of when the proposals were issued or that vendors were provided adequate notice. Also, the District did not always obtain oral or written price quotations for purchases requiring them.

Recommendations

To strengthen controls over competitive purchasing and to comply with School District Procurement Rules and USFR guidelines, the District should establish and follow the policies and procedures listed below:

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$32,899.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.
- Sole source and emergency procurements and other exceptions.

- Obtain written determination from the Governing Board that the use of competitive sealed bids is either not practicable or advantageous to the District before making purchases through competitive sealed proposals.
- Maintain a prospective bidders' list, if applicable.
- Retain a copy of the request for proposal along with documentation that verifies adequate vendor notice and proposal date- and time-stamping upon receipt.
- Restrict emergency procurements to situations that seriously threaten the functioning of the District, the preservation or protection of property, or the public health, welfare, or safety.
- Document in writing the basis for each emergency purchase, including vendor selection and reasonableness of price paid
- Obtain written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$32,899, and oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and

\$15,000. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations. Purchases may be single items within the price range or it may be a collection of items that, in the aggregate, are within the price range.

Guidelines for oral and written price quotations can be found on USFR page VI-G-8 and in USFR Memorandum No. 209.

The District should ensure the accuracy of its accounting records and effectively monitor spending capacity

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District also needs to report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records, budget, and Annual Financial Report (AFR) are accurate and complete. However, the District did not fully accomplish this objective. Specifically, the District did not reconcile its records of revenues, expenditures, and cash balances to the records of the County School Superintendent (CSS) in a timely manner or ensure that its records of cash balances were reconciled to the County Treasurer's records by the CSS in a timely manner, as reconciliations were not prepared until 7 months after fiscal year end.

In addition, the District incorrectly coded state revenues and interest earnings on bond proceeds in the accounting records, district management did not review and approve journal entries, and the District did not properly close its accounting records at year end. Further, the District did not ensure that sufficient budget capacity was available in budget-controlled funds and that sufficient cash was available in cash-controlled funds before authorizing expenditures from them. As a result, the Food Service Fund had a deficit fund balance, and Classroom Site Fund expenditures exceeded its budget.

The Food Service Fund had a deficit fund balance of \$189,210, and Classroom Site Fund expenditures exceeded the budget by \$41,428.

Finally, the District did not include all available resources for the Classroom Site Funds in its fiscal year 2003 adopted budget. Also, the District did not report revenues and expenditures accurately on its AFR.

Recommendations

The following procedures can help the District record and report accurate financial information and monitor spending capacity:

- Reconcile the District's records of revenues, expenditures, and ending cash balances to the CSS monthly reports. Prepare written reconciliations and make all necessary corrections.

USFR page VI-B-10 provides year-end procedures.

- Ensure that the CSS reconciles the District's records of cash balances to the County Treasurer's records at least monthly, resolves all differences, and makes appropriate corrections.
- Classify all revenues in accordance with the USFR Chart of Accounts.
- Ensure that district management reviews and approves journal entries before they are recorded in the accounting records.
- Record interest earned from the investment of bond proceeds in the Debt Service Fund unless otherwise authorized by the voters.
- Verify that sufficient budget capacity exists before authorizing expenditures from budget-controlled funds and that sufficient cash balances are available before authorizing expenditures from cash-controlled funds.
- Maintain separate accounting records for the prior and current fiscal years during the 60-day encumbrance period following June 30. At the end of the 60-day encumbrance period, the prior fiscal year's accounting records should be closed.
- Carry forward the unexpected budget balances in the Classroom Site Funds to the following year in accordance with Arizona Revised Statutes §15-978.
- Require a second employee to verify that amounts reported on the AFR agree to the District's adopted budget and accounting records before it is submitted to the CSS and ADE.

The District should maintain an accurate capital assets list

The District did not protect its investment in capital assets.

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to have an accurate list of these assets and to ensure that they are properly identified and accounted for. However, the District did not maintain a complete capital assets list or reconcile capitalized acquisitions to capital expenditures. In addition, the District did not follow the Arizona Administrative Code guidelines when disposing of surplus property.

Recommendations

The following procedures can help the District improve control over its capital assets and ensure that its capital asset list is accurate and complete:

- Include all required information for all items on the capital assets list.
- Update the capital assets list for items acquired and disposed of at least annually.
- Record capital assets at actual cost. Actual cost includes ancillary charges necessary to put the asset in its intended location and condition for use, including sales taxes and freight charges. If the District is unable to determine actual cost, estimated historical cost may be used.
- Record lease-purchases on the capital assets list at the lesser of the fair market value at the inception of the lease, or the present value of the net minimum lease payments (usually the principal amount) at the beginning of the lease term.
- Reconcile capitalized acquisitions to capital expenditures to ensure that all current-year acquisitions are recorded on the capital assets list.
- When disposing of assets by auction, advertise auctions at least twice prior to the auction date in the official newspaper of the County. Advertisements must be at least 7 days apart.

The form on USFR page VI-E-13 may be used to document the reconciliation of capital asset additions to capital expenditures.